

REPORT OF THE
VOLUNTARY PETROLEUM ALLOCATION AGREEMENTS COMMITTEE
OF THE
NATIONAL PETROLEUM COUNCIL

April 14, 1948

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COMMITTEE OF THE NATIONAL PETROLEUM COUNCIL

In accordance with the action of the Council in approving the report of this committee on January 22, 1948, your committee has met and reviewed the general results of the cooperative program as revealed by industry data and reports from the three regional committees.

The plan approved by the National Petroleum Council urged the adoption of a few industry-wide measures, but emphasized the importance of setting up district and local committees to handle local hardship situations on a decentralized basis. Secretary Krug and Attorney General Clark recognized the urgency of the matter and approved proceeding under the program on a temporary basis without holding public hearings. No attempt was made to embody the committee recommendations in a formal agreement, the unanimous vote of the Council being considered as signifying industry willingness to cooperate. The results may be summarized as follows:

Kerosene and Distillate Fuel Production

With very few exceptions the industry has cooperated in a most gratifying manner in all phases of the recommended program. The outstanding results of the recommendation to maximize crude runs and the yields of kerosene and distillate fuels, even at the expense of gasoline, for the succeeding sixty (60) day period are clearly borne out by the following figures:

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| Actual Production 1-25-48 to 3-20-48 (First eight weeks following recommendation) | 82,660,000 bbls. |
| Actual Production 11-30-47 to 1-24-48 (The preceding eight weeks) | 75,264,000 bbls. |
| Actual Production 1-26-47 to 3-22-47 (The corresponding eight weeks a year ago) | 62,861,000 bbls. |

Thus in the eight weeks following the recommendation there was an increase of 7,396,000 bbls. or 9.8 percent over the preceding eight weeks, and an increase of 19,799,000 bbls. or 31.5 percent over the corresponding period a year ago. This is an outstanding record of achievement.

There is little question but that this large increase in the production of kerosene and distillates marked the difference between sporadic and local supply difficulties affecting a minority of consumers and very serious shortages which would have resulted in widespread hardship.

Distribution Results

Accomplishments achieved to the end of better distribution of finished products cannot be reduced to the quantitative measurements submitted above. We know, however, that they have been real and substantial. The rapid increase during January and February in the number of tankers in operation was the major factor in the improvement of the situation on the East Coast. The recommendations made by the committee on this point were recognized as merely reinforcing those made earlier and generally agreed to by other industry and governmental agencies.

Pipe lines were operated at maximum capacity wherever supplies were available. Barge operators continued a most unusual effort on river movement with particular efforts to move up the Illinois Waterway to the Chicago market notwithstanding the hazards to equipment and unusual cost and despite unusually severe winter conditions, with the aid of the Inland Waterways Corporation's ice breakers 40% more oil was barged up the Illinois during the winter months than during the previous winter. Tank cars were assigned to aid in the expeditious

movement of heating oils where transportation was the bottleneck for properly serving the market. Trades, loans, and exchanges of merchandise, designed to reduce the need for transportation facilities, were practiced widely by individual companies prior to the plan adopted by the Council, but such methods of reducing transportation requirements and eliminating hardships were substantially developed and expanded by the industry under the plan. All of these above-indicated accomplishments are a credit to the cooperative spirit evidenced by the oil industry under the plan as adopted by the Council and approved by Secretary Krug and Attorney General Clark.

The most important accomplishment, however, was working out and putting into effect plans to take care of individual hardship cases on a local basis. Numerous committees had already been set up to cooperate with governors, mayors, or fuel administrators in various areas. The appointment of the district committees under the Council plan served to guide and stimulate the action of these local committees, to disseminate information as to successful plans and procedures, and to cause the organization of other local committees wherever need was indicated. The district committees also aided in the dissemination of statistical information and in pointing out and correcting the situation in some areas which might have gotten into difficulty had the problem not been approached on an industry-wide basis.

The results of such local activities were to practically eliminate all consumer hardship. A remarkable record could be made if all accomplishments along these lines were brought together. Perhaps the outstanding evidence of achievement are the strongly commendatory

letters received from the great majority of governors and fuel administrators in the areas affected. There were also many laudatory comments by the press, local officials and customers.

Much of the credit for avoiding serious hardship must also be attributed to general public cooperation with conservation measures urged by Federal, state and local officials and by all branches of the industry using every channel of communication with the public.

Future Course of Action

The functions of this committee, as outlined in Mr. J. A. Krug's letter of January 7 was "to consider and report such recommendations as it deems appropriate as to actions including, but not limited to, plans and voluntary agreements that can be made by industry and/or government under Public Law 395 with respect to petroleum including petroleum products and natural gas and petroleum transportation facilities and equipment, to carry out the purposes of said law." However, the specific plan worked out by this committee and approved by the National Petroleum Council, was concerned only with a solution of the immediate problems incident to supplying fuel oil to the American consumer. The anti-trust clearance afforded by Attorney General Clark's communication of January 28, 1948, was limited to industry cooperation to this one end. The temporary clearance has been extended to April 30 with permission to include motor fuels within their perview. In view of the ending of severe weather and the fact that fuel oil stocks are now above those of a year ago, it is your Committee's opinion that the immediate problems which it attacked and for which the industry was authorized to proceed have been accomplished so far as the past winter season is concerned.

Paragraph 20 of the Plan instructs the Committee to examine actual accomplishments of the program so that out of such experience, methods might be devised to handle the gasoline situation this summer and heating oil problems next winter.

It has been estimated that barring unforeseen difficulties, domestic availability of total petroleum products in 1948 will be around 8 percent higher than in 1947. Whether this will mean a fairly comfortable situation or a shortage depends largely on the number of additional fuel oil consuming units which are put into service during the year. It is evident that the industry will not be able to take care of much of an increase in such units and certainly not anything like as large an increase as that which took place last year. Manufacturers of oil consuming equipment and prospective users should be definitely advised of this inescapable conclusion.

If the industry next fall faces a probable shortage of heating oils for the winter, it is the opinion of this committee and of the district committees that the Plan in use for the past three months is about as good as can be devised, though it should be undertaken much earlier in the heating season if proper antitrust clearance could be secured. As to proceeding under Public Law 395, the following discussion in connection with the gasoline situation applies with equal force to trying to handle possible heating oil difficulties next winter.

For the next six months the major question is of course that of gasoline supplies, which were necessarily adversely affected by the maximizing of heating oil yields during recent months. However, according to the last report, gasoline stocks on April 3, 1948 were 113,530,000 barrels, a new high record, 6.1 percent above those on

the corresponding date in 1947. Crude runs to stills for the past two weeks have been approximately 12.3 percent above last year and gasoline production during this period has been 10 percent above a year ago. There is reason to anticipate that gasoline production over the next two months will continue to be at least ten percent greater than it was in 1947. At the same time, probably partly in response to industry-wide promotion of conservation measures, as recommended by our committee, gasoline consumption appears to have been running somewhat below this 10% figure as compared with a year ago. All these factors indicate that the overall gasoline outlook is considerably better than that for heating oil three months ago. While supplies will be tight and conservation measures must continue, the general outlook is certainly not critical, at least for the next three months, barring a possible major increase in military demand or other unpredictable factors.

An important difference between the heating oil market and the gasoline market is that the latter is characterized by mobility in which most of the consumers go to the source of supply, which tends to equalize supplies within an area. This is substantially different from the fuel oil market where supplies must be taken to the consumer. In other words, there is a much less likelihood of individual consumer hardship situations than in the case of fuel oil.

There appears to be an imminent problem in agricultural areas, particularly in the Midwest. Tractor fuels and third grade gasoline largely used by tractors appear to be short in many areas. To some extent this shortage can be cared for by bringing in gasoline or tractor fuels from more distant points, as many suppliers are doing in spite of the higher costs involved. Spring plowing requirements

will bring these problems to a head before the plan hereinafter described can be worked out, and the Secretary of the Interior is accordingly requested to secure a temporary extension of the clearance of district and local committees in the agricultural areas to work jointly on this specific problem only.

Desirability of an industry program under Public Law 395.

In spite of certain possible obstacles, the Committee is of the opinion that, based on the activities carried on by the District Committees to date, consideration should be given by the National Petroleum Council to recommending that some plan or program be developed and properly approved by the necessary governmental agencies under Public Law 395 so that the petroleum industry in each area would have the authority and proper legal clearance to organize committees which would be available and ready to assist in relieving consumer hardship situations in areas where shortages of petroleum products develop or appear to be developing.

The plan or program would be directed primarily to assist in relieving hardship cases at the consumer level and the main functions of the Committees to be organized would be to do whatever they could to see that increased supplies were made available, on a voluntary basis, in an area where shortages are reported or appear imminent.

It is assumed in proposing the program hereby recommended that the disparity between supply and demand will not be great and that it will probably be necessary to assist only in handling spot shortages in certain areas.

The Committee also believes that the plan or program should be administered through Committees of the National Petroleum Council.

It is also believed that the Committees carrying out the plan or program under the jurisdiction of the National Petroleum Council should be industry committees and that the plan should not require, but would permit, duly accredited governmental representative to attend Committee meetings; complete minutes of meetings of industry committees should be kept and copies furnished to the Department of the Interior for distribution to the Department of Justice and other government agencies.

Any plan or program to be authorized and undertaken by the industry would contemplate cooperation with State and local authorities and coordinators.

Suggested Provisions To Be Included in A Plan or Program.

Any plan or program should only be undertaken by the industry if the Department of Justice is willing to approve a program which will give reasonable flexibility to district or local committees to handle local situations promptly and effectively as long as they proceed in accordance with the general principles which are approved. The plan should also authorize the National Petroleum Council to organize committees to administer a plan or program, or parts thereof, that would include the following functions and organization, subject to the qualifications in Section K hereof.

- (A) The plan or program should be for an indeterminate period but should not extend beyond March 1, 1949, it being understood that the district committees of the National Petroleum Council may determine in their discretion when any portion of the program should be commenced or discontinued in their respective districts.
- (B) The plan or program would provide for assisting in eliminating hardship situations, at the consumer level, covering the following petroleum products:

Gasoline and other motor fuels,
Kerosene,
Distillates and
Heavy Fuel Oils.

- (C) The plan or program should contain a recommendation designed to promote voluntary compliance with the principle of equitable distribution by each supplier among all customers of a previous season or year, as the case may be, after taking care of the requirements of essential requirements such as military, food production, mass transportation, etc. It is also recommended that the plan or program urge suppliers to make known to their customers periodically, their formula or plan of equitably allocating distribution of their products.
- (D) The appointment of District Committees (the districts to be substantially the same as those under the Petroleum Administration for War), which District Committees in turn shall have power to appoint subcommittees and/or representatives for such regions or zones as the District Committees may deem best.
- (E) The assembling of supply and demand data and the making of other appropriate studies, including the study of seasonable inventories of products in each area.
- (F) Authorization for the several committees and those acting under them to make recommendations for voluntary action by members of the industry for increasing the refinery yields of products in short supply and for the more effective distribution of such products so as to prevent and relieve hardship at the consumer level. Such recommendations would deal with purchases, exchanges, loans, transportation arrangements and other measures which may seem appropriate, including the voluntary contribution of supplies for the relief of hardship under the direction of State or local coordinators.
- (G) The obtaining of facilities and personnel on a voluntary basis and the financing of Committee activities by voluntary contributions on such basis as the Committees may determine.
- (H) Continuance and extension of the efforts heretofore made to promote consumer conservation of all petroleum products by all classes of users.
- (I) The activities of the several committees should not embrace problems connected with the exportation of petroleum products.

- (J) Authorization for the committees to use their best efforts to bring about uniform practices among the several State and local coordinators and similar groups in instances where such uniformity will aid the objective of the program.
- (K) The plan hereinabove outlined, if approved in principle by the National Petroleum Council, should immediately be submitted to the Regional Advisory Committees in Districts I, II and III and to Council members in Districts IV and V for their review and comments. Such comments should be submitted within 10 days to Mr. Ball for transmission to the committee charged with the formulation of an industry plan.

Conclusion

In short, and stated in terms of principle, what the Committee has in mind is a continuance, under the sanction of Public Law 395 and the regulations thereunder, of the present general type of organization and program designed to deal with such shortage situations as may arise.

Respectfully submitted

Robert E. Wilson, Chairman
FOR THE COMMITTEE

Harold D. Roberts, Counsel, Frontier Refining Company, Denver,
and Counsel for the Committee.

Mr. Robineau asked Mr. Roberts to read and explain the Voluntary Petroleum Products Allocation Plan Under Public Law 395. Mr. Roberts did so and called attention to the exchange of correspondence between Secretary of Interior J. A. Krug and U. S. Attorney General Tom C. Clark.

Following this the Committee elected J. A. Lentz, Vice-Chairman, and H. A. Stewart, Secretary and Treasurer.

Chairman Robineau then reviewed discussions he had taken part in during a previous National Petroleum Council meeting in order to explain the program and the plans set up nationally.

Discussion then was carried on covering operations and program for this Committee; the outlook in the District on Supply and Demand; and the need for any plan of allocation.

The discussion brought out the following facts concerning Supply and Demand in the District:

Crude oil production is up to 235,000 barrels daily with some curtailment of light oil production because of insufficient pipe line outlet (principally in Rangely Field, Colo.) and some in black oils because of low demands for fuel oil and residual oils. Therefore crude avails are ample to meet any probable requirement.

Refinery runs are holding between 155,000 and 158,000 barrels daily. New construction completed and completions this year and next will give a net increase in capacity of 30,000 to 35,000 barrels daily. The new plants include catalytic cracking units which will give much greater flexibility in supplying required products. Crude avails mentioned above are ample for the new requirements and still leave crude available for export from the District.

For the first eight months of 1948 crude runs to stills averaged 150,000 barrels per day, with average yields as follows:- gasoline 65,000 barrels, kerosene 4,000, gas oil and distillate 25,000, residual oil 38,000 barrels.

Inventories in barrels of crude oil and products are materially increased as compared with the same time last year.

| <u>API Rpts.</u> | <u>Sept. 1947</u> | <u>Sept. 1948</u> | <u>Increase</u> |
|----------------------|-------------------|-------------------|-----------------|
| Crude Oil | 8,600,000 | 9,600,000 | 1,000,000 |
| Gasoline | 1,563,000 | 1,784,000 | 221,000 |
| Kerosene | 163,000 | 320,000 | 157,000 |
| Gas Oil & Distillate | 913,000 | 1,485,000 | 572,000 |
| Residual Oils | 663,000 | 968,000 | 305,000 |

The increased crude storage probably does not mean increased oil available but rather reflects the additional oil required as pipe line fill and working stocks of the expanded pipe line systems.

Gasoline stocks are about at the normal years low. This stock appears adequate but will naturally be increased until it reaches a peak in March 1949. The large stock then will be required to carry the summer seasons demand, chiefly agricultural.

Kerosene stocks, nearly double a year ago, give a reasonable cushion in event of increased demand.

Gas oil and distillate and the residual stocks are half again as high as last year. The lower stocks plus current production kept pace with market demands last winter so there is no reason for alarm this coming winter with larger stocks on hand and larger production per day.

Discussion of the outlook for burning oils, diesel fuel, and residual oils (including road oils and asphalt) brought out certain important points.

Increased conversions to natural gas in the Denver area have reduced demand for burning oils. Difficulties in road construction programs

have reduced greatly the highway demands for road oils and asphalt. This, with softness in fuel oil market in District II, has caused some backup in normal output of these products.

Demand for diesel fuel is increasing particularly by railroads in the District, but also from automotive units. Consensus of opinion was that this demand, supplied now largely from catalytic cracking, would tend to absorb any cutbacks in burning fuels and residual oils. The new plants will be able to run any crude to the product most required for which there is a profitable market.

It was believed also that the new refining technique will produce tailor-made products with a decrease in residual oils, which will increase the cost of such oils on the open market and result in diminished use of oil for space heating and other uses where coal can be used and be competitive in cost.

The conclusion reached from the discussions was that District does not have any problem in Supply and it will be able to meet all foreseeable demands. There is no need for allocation of products now and probably will be none, barring a war or other serious emergency. There is now no hardship in supply at any level—consumers, dealers, or wholesalers, and, barring war, serious strikes or other emergency, no hardship is foreseeable.

Some consideration was given the area in Idaho, west of Boise, and in the Panhandle which is supplied from District V but geographically is in District IV. The area suffered some curtailment from the 75% allocation formula applied in District V recently, and there had been some effort to either raise the allocation or transfer the area to District V. The transfer could not be made but the allocation appears to be causing little trouble.

It was brought out that transportation costs and problems tied the area to Columbia River transport, and that suppliers in District IV could not ship into the area by rail or truck in competition with current delivered costs from District V. Consequently, unless added cost could be recovered as under P.A.W., the area would have to continue as it has in the past.

The Committee's figures on natural gasoline and L.P.G. were not so complete but it was pointed out that the Rangely Field Plant would be in operation soon, at a capacity of approximately 20,000 gallons per day, with Elk Basin more than doubling that next year. This 2,000 barrels per day of natural gasoline is equal to 6,000 barrels of crude oil. The L.P.G. recovery will be about double the gasoline.

In view of the facts, the Committee decided that until some general emergency arose it would function as a Committee of the whole. No sub-committees would now be set up and no formal arrangements made to compile statistics. It was agreed that A. P. I. figures would be kept up for the District, and all members be advised of any trends that might be adverse and require special attention. The Committee would meet from time to time and keep prepared to act when needed.

Mr. Robineau stated that a study of available tankage for storage was called for. None present were aware of any such available storage room now. Mr. Lentz stated that an A. P. I. subcommittee was making such a survey now and duplication was inadvisable. The Committee agreed and recommended that Mr. Robineau refer the storage room problem to the committee making the study.

The Committee then adjourned to await further call from the Chairman.

Approved:


M. H. Robineau, Chairman



H. A. Stewart
Secretary-Treasurer